
Auditor's Summary

Financial and Compliance Audit of the Department of Health, Water Pollution Control Revolving Fund

Financial Statements, Fiscal Year Ended June 30, 2019



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About the Fund

In accordance with the Clean Water Act of 1987 (the Act), the U.S. Environmental Protection Agency's (EPA) direct grants for the construction of wastewater treatment works ended in 1990. The Act provides for the creation of a State Revolving Fund (SRF) loan program to be capitalized in part by federal funds. The Act authorizes states to make loans for construction of publicly owned wastewater treatment works, for implementation of a non-point source pollution control management program, and for implementation of an estuary conservation and management program. Under the Act, from 1989 to 1994, the State of Hawai'i received more than \$72 million in SRF capitalization grants. The

Act expired on September 30, 1995; however, the State continues to receive SRF capitalization grants annually from the EPA and, to date, has been awarded over \$317 million.

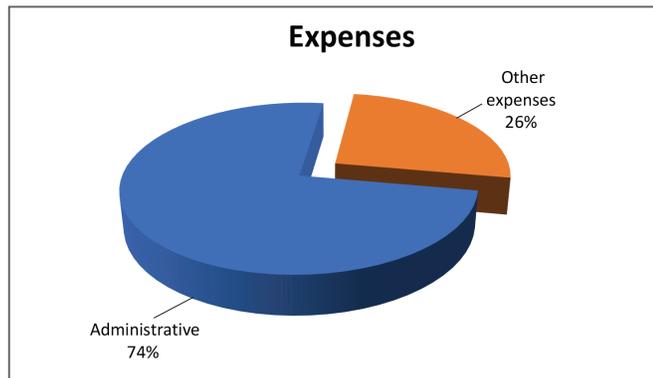
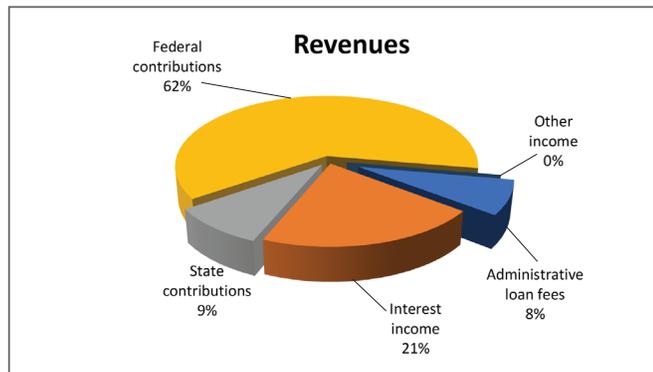
In 1988, the Hawai'i State Legislature established the State Water Pollution Control Revolving Fund (Revolving Fund) to initiate the federal loan program. The purpose of the Revolving Fund is to provide loans in perpetuity to county and State agencies for the construction of wastewater treatment facilities and for non-point source projects. The Revolving Fund is administered by the State of Hawai'i Department of Health's Environmental Management Division, Wastewater Branch.

THE PRIMARY PURPOSE of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Health, Water Pollution Control Revolving Fund, as of and for the fiscal year ended June 30, 2019, and to comply with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which set forth audit requirements for state and local governmental units that receive federal awards and the Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs (Program). The audit was conducted by KMH LLP.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2019, the Revolving Fund reported total revenues of \$22.8 million and total operating expenses of \$4 million, resulting in an increase in net position of \$18.8 million. Total revenues consisted of administrative loan fees of \$1.7 million, interest income of \$4.7 million, State contributions of \$2.1 million, and Federal contributions of \$14.2 million. Total expenses of \$4 million consisted of administrative expenses of \$3 million and other expenses of \$1 million.

As of June 30, 2019, total assets and deferred outflows of resources were \$544.5 million and total liabilities and deferred inflows of resources were \$8 million. Total assets were comprised of cash and cash equivalents of \$177.8 million, loans receivable of \$360.8 million, and other assets and deferred outflows of resources of \$5.9 million.



Auditors' Opinions

THE REVOLVING FUND RECEIVED AN UNMODIFIED OPINION that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The Revolving Fund also received an unqualified opinion on its compliance with federal statutes, regulations, and terms and conditions of federal awards that apply to the Program.

Findings

THERE WERE NO REPORTED DEFICIENCIES in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that were considered material weaknesses in internal control over compliance with the Program.